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The effects of the rent burden on low income families

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Low-income families face a constant barrage of financial challenges. But according to authors Jeff Larrimore and Jenny Schuetz in "Assessing the severity of rent burden on low-income families" (*FEDS Notes*, Board of Governors of the Federal Reserve System, December 22, 2017), rent plays a particularly pivotal role in such families' overall financial health. The average family in the bottom quintile of the income distribution has less than $500 left after paying rent, a monthly amount that must be allotted for essential necessities, such as food, clothing, health care, and transportation. For many families, rent is a financial burden that adversely affects their economic well-being, which is often tenuous at best, as an unexpected drop in income could easily lead to eviction.

Larrimore and Schuetz use data from the 2015 American Community Survey Public Use Microdata Sample to analyze housing expenditures on renters by income. They apply U.S. Department of Housing and Urban Development definitions to identify renters who spend more than 30 percent of their pretax income on housing as "rent burdened" and those who spend more than 50 percent as "severely rent burdened." Because Larrimore and Schuetz find that the majority of renters in the top 80 percent of the income distribution are not rent burdened, they focus their research on renters in the bottom 20 quintile, for whom the rent burden problem is most pervasive. The median renter in this bottom group pays 56 percent of monthly income on rent.

The financial constraints of the bottom quintile renters are further highlighted when the authors compare this group's residual income (income left after rent is paid) with Supplemental Poverty Measure (SPM) thresholds. According to the SPM, a family of four in 2015 needed about $1,400 in residual income. But the data show that the median renter in the bottom quintile comes up well short of that figure, with just $476.

Anecdotal evidence may lead some to believe that rent rise proportionally with income, but that belief is inaccurate. The lowest income renters pay about half the median rent of the highest income renters, yet earn only 10 percent of the latter group's income.

Despite the difficult circumstances of the lowest income renters, many are eligible to receive in-kind benefits that mitigate their financial constraints. Low-income families could potentially qualify for benefits such as the earned income tax credit, the Supplemental Nutritional Assistance Program, and rental assistance. These benefits are not captured in the authors' analysis.

Families with children pay a median of three-fifths of their monthly income in rent and are left with under $450 in residual income. Low-income elderly renters pay less of their income on rent and have nearly $600 in residual income. The authors note that this disparity is somewhat counterbalanced by the fact that the tax credits and noncash benefits available to low-income renters are typically larger for families with children than they are for the elderly.

In sum, Jeff Larrimore and Jenny Schuetz have laid out the severe financial burden that high rent places on many low-income families. The factors they identify are a rise in rent and a lag in income: housing costs went up at a higher rate than real income. Consequently, relief for low-income families will only come with a rise in real income or a decline in rent prices.